

Think Ahead

**ACCA**

# VAT UAE, Pakistan and Sri Lanka

Dubai, Pakistan  
and Sri Lanka  
2016

# VAT

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# Tax principles

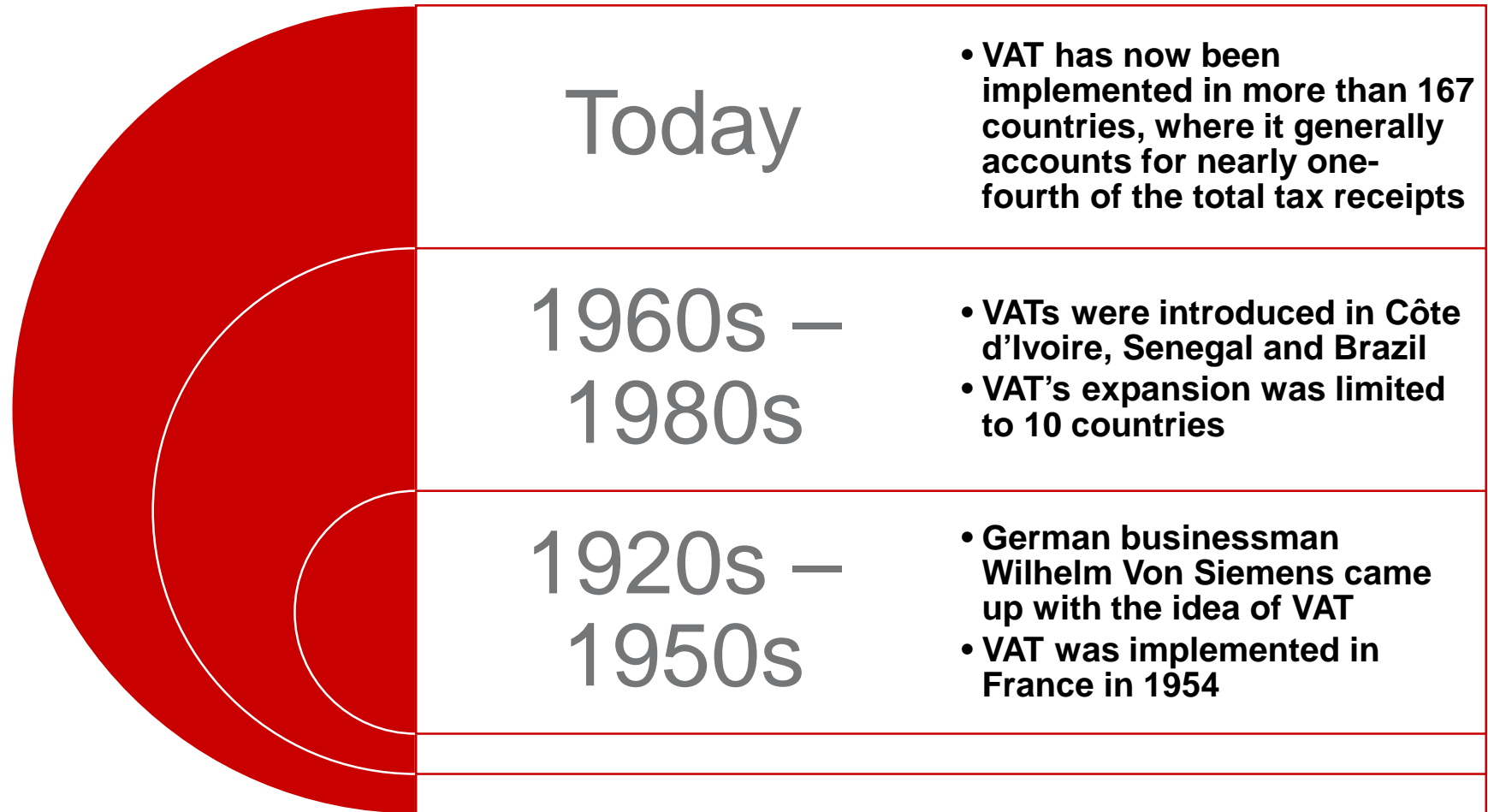
ACCA believes there are key inherent tax principles that should underpin a good tax system. These include

1. Certainty
2. Transparency
3. Accountability
4. Simplicity
5. Efficiency
6. Recognition of human rights

<http://www.accaglobal.com/content/dam/acca/global/pdf/tech-tp-ttt.pdf>



# History of VAT



# Introduction

- VAT is often regarded as ‘self-policing’
- A well-designed VAT system can raise revenue on a stable and sustainable basis and this is why the decision to introduce VAT has often been made
- VAT is less susceptible to fraud than other taxes because of tax payments being made at different stages of the supply chain
- A commonly cited disadvantage of VAT is that it can be regressive in nature, a problem associated with most types of indirect taxes
- Enforcement of VAT laws in a developing country can be a challenge, particularly when there are a number of large informal sectors.

# VAT Registration Thresholds

- VAT laws contain different “tax free thresholds” that exempt small businesses and small enterprises from mandatory registration and operation under the VAT system.
- When VAT was originally introduced on the world stage, the general view was that under the ideal VAT, threshold should be zero
- Optimal tax administration analysis suggests balancing between collection costs and marginal value of additional tax gains

Bangladesh	India	Pakistan	Sri Lanka	UAE
100,864 (8m Takas) Per annum	15,595 (1m Rupees) Per annum	48,667 (5m Rupees) Per annum	22,075 (3m Rupees) per quarter, or 88,299 (12m Rupees) per annum	1,021,033 (Dh3.75m) per annum  Optional registration between 509,155 (Dh1.87m) and 1,021,033 (Dh3.75m)

# Zero-rating, Exemptions and Reduced Rates

Many goods and services are not subject to VAT at the standard rate in the countries under study. Some are zero-rated, some are subject to a reduced rate, while some are subject to higher rate and some are exempt.

## Things to consider:

- Difference between zero-rated and exempt goods.
- Issues with exemptions (and opportunities for tax avoidance)
- Goods and services normally exempt or zero-rated:
  - Basic food items
  - Medicines and medical equipment
  - Exports

# Penalties

Tax authorities make use of interest and penalties as sanctions to influence taxpayers to comply with tax laws and to fulfil their tax obligations. Interest is imposed on taxes not paid within the time prescribed. The interest rate is based on various factors, including inflation and market/bank interest rate. Penalties are imposed as a percentage of the outstanding or omitted/evaded tax liability and vary depending on the seriousness and frequency of the offence.

## Things to consider:

- Difference between zero-rated and exempt goods.
- Encourage voluntary compliance and deter non-compliance
- Should not to be designed to raise revenue
- Should be proportionate



# Refunds

Overpaid taxes represent a cost to taxpayers in terms of time value of the money, which is particularly critical to businesses that are operating with tight margins and where cash flow is of a high priority. Any delays in recovering legitimately overpaid taxes may therefore result in significant costs to taxpayers, particularly, where there are inadequate provisions in tax laws for payment of interest to taxpayers in respect of delayed recoveries.

Best international practices highlight the importance of revenue bodies having systematic processes in place for granting timely refunds to compliant taxpayers, as well as robust compliance checks for detection of fraudulent refund claims, ideally before issuance of refunds.

## Factors contributing to tax refunds

- Design of tax system that allows benefits and exemptions at the time of declaration
- Reversals of large amount of disputed tax amounts
- Design of tax system allowing credit of VAT paid related to export or zero rates sales
- Western-related domestic zero-rated schemes
- Excessive withholdings of tax at the time of purchases/imports

# Information Technology

## Role of IT

- Processing returns and payments and collecting relevant information.
- Enabling tax administration to move away from manual processing and to direct its resources to facilitating, monitoring and enforcing compliance
- Facilitates voluntary compliance by opening multiple interactive and electronic channels with taxpayers
- E-tax system, may include support for electronic registration, filing, payment, information dissemination and other functions
- Modern IT systems provide support to the tax administration's audit and collections function in collecting and managing information of target areas

The tax authorities in the region under consideration have been trying to make every step easy for their taxpayers in filing their returns. These tax authorities have made a lot of things accessible online including registration, payments, queries and guidelines amongst other things.

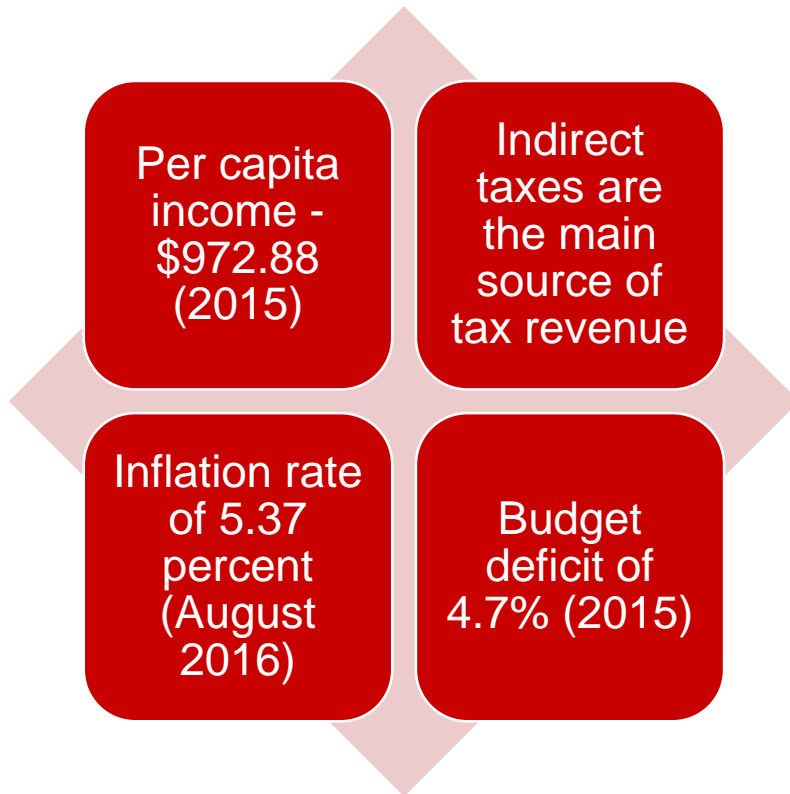
It is expected that businesses would be using the eServices portal for registration and filing of their returns in the UAE as well.

Tax collection in South Asia is critical for the development of the region.

Enforcement of VAT laws in a developing country can be a challenge

# Indirect tax in Bangladesh

## Quick brief



## Federal/Provincial levy of tax

- Only federal government has the authority to levy taxes

## Collection trend

- Bangladesh's indirect tax revenue has gone up from \$7.4 billion in 2011 to \$9.5 billion in 2015
- Indirect tax to total tax – 53.66% (2015)
- Total tax to GDP – 9.14% (2015)

# Indirect tax in India

## Quick brief

Per Capita  
income –  
\$1,805.58  
(2015)

GDP in 2015  
accounts for  
3.4% of the  
world  
economy

New GST is  
expected to  
be  
implemented  
till late 2017

Inflation  
rate of  
5.05%  
(August  
2016)

## Federal/Provincial levy of tax

- Central/Federal government levies custom duties, central excise and service tax
- State/Provincial government levies VAT, stamp duty, state excise, land revenue and profession tax

## Collection trend

- India's indirect tax collection has gone up from \$176 billion in 2011 to \$232 billion in 2015
- Indirect tax to total tax – 66.55% (2015)
- Total tax to GDP – 17.38% (2015)

# Indirect tax in Pakistan

## Quick brief

Per capita  
income –  
\$1,152.14  
(2015)

Inflation rate  
of 3.56  
percent  
(August  
2016)

Indirect tax  
revenue  
accounts for  
51% of total  
tax revenue

Issues  
between  
federation  
and the  
provinces

## Federal/Provincial levy of tax

- Federal government is authorized to levy and collect Sales tax on goods.
- Provincial government is authorized to levy and collect sales tax on services

## Collection trend

- Pakistan's indirect tax revenue has gone up from \$11.1 billion in 2011 to \$14.8 billion in 2015
- Indirect tax to total tax – 49.85% (2015)
- Total tax to GDP – 12.27% (2015)

# Indirect tax in Pakistan

## Business considerations

- Administrative burden of maintaining records and filing Sales Tax returns
- Employee training and compliance costs

## Government considerations

- Simplification of Tax Laws
- Employee training
- Taxpayer facilitation
- Broadening of tax base
- Taxpayer education and awareness
- Issues with inter-provincial taxation

# Indirect tax in Sri Lanka

## Quick brief

Per capita  
income –  
\$3,637.54  
(2015)

Inflation  
rate of 4  
percent  
(August  
2016)

Budget  
deficit of 7.4  
percent in  
2015

Indirect  
taxes are  
the main  
source of  
tax revenue

## Federal/Provincial levy of tax

- Centralized tax collection as only federal government has the authority to levy taxes

## Collection trend

- Sri Lanka's indirect tax revenue has gone up from \$4.8 billion to \$6.8 billion in 2015
- Indirect tax to total tax – 65.98% (2015)
- Total tax to GDP – 12.97% (2015)



# Indirect tax in Sri Lanka

## Business considerations

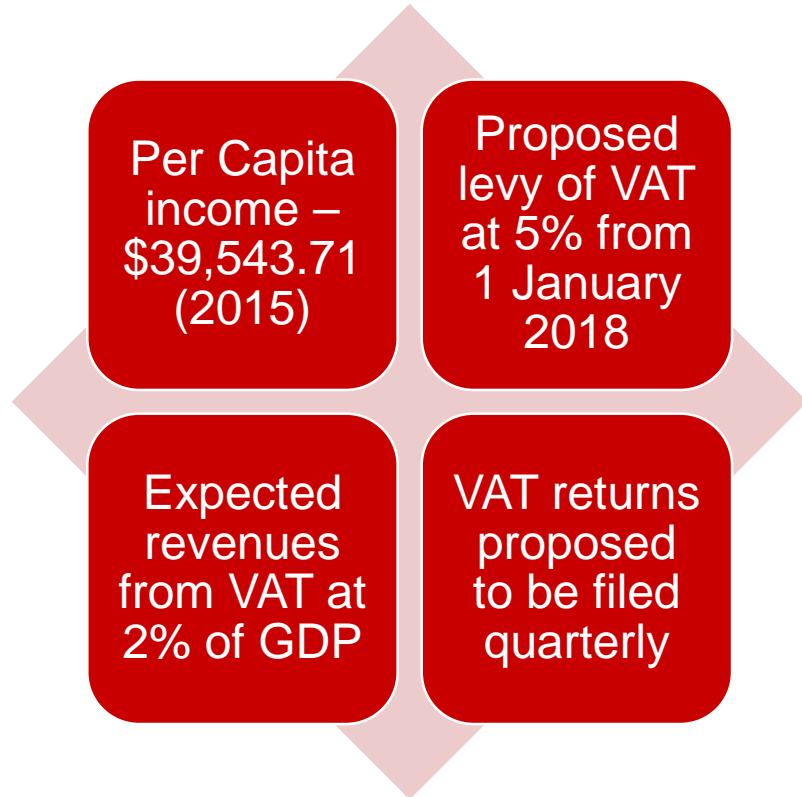
- Administrative burden of maintaining records and filing VAT returns
- Employee training and recruitment costs

## Government considerations

- Simplification of tax legislation
- Broadening of tax base
- Employee training and recruitment costs
- Taxpayer facilitation
- Taxpayer education and awareness

# VAT in UAE

## Quick brief



## Other aspects

- Businesses are expected to register online using eServices portal which is expected to be made available 3 months before launch of VAT
- 100 basic food items, health care, education, bicycles and social services will be exempted

# VAT in UAE

## Business considerations

- Administrative burden of maintaining records and filing VAT returns
- Employee training and recruitment costs
- Invoicing and payment systems upgradation costs

## Government considerations

- Legislation drafting
- Setup of collecting authority
- Employee training and recruitment costs
- Taxpayer facilitation
- Refund management
- Taxpayer education and awareness

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## The invoice

□ EU principle : the obligation on a supplier to issue and on a customer to be in possession of an invoice

The VAT Directive lays down the principle that the deduction of input VAT is only possible if the taxable person (the customer), holds a compliant invoice.

The key to exercising the right to deduct VAT is the invoice : a “purchase” or “incoming invoice”

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## The invoice

### □ EU principle : What is an invoice?

Corrective documents – credit notes are invoices

Any document or message that amends and specifically and unambiguously refers to the initial invoice is to be treated as an invoice, which means that corrective documents should be in principle comply with the invoice rules


# Appeals process

<ul style="list-style-type: none"><li>• <b>UK</b></li><li>• Departmental review</li><li>• First tier Tax Tribunal</li><li>• Upper Tribunal</li><li>• Court of Appeal</li><li>• Supreme Court</li></ul>	<ul style="list-style-type: none"><li>• <b>France</b></li><li>• Review by the « chef de Brigade »</li><li>• Review by the Interlocuteur départemental</li><li>• Commission départementale des impôts indirects...</li><li>• Tribunal administratif</li><li>• Cour d'appel</li><li>• Conseil d'Etat</li></ul>
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Referrals to the EUCJ from Tribunal upwards – Article 267 of the TFEU

But also Article 238 of the TFEU procedure via a « complaint »!

TABLE 5.2: Appellate forum available to taxpayers

INDIRECT TAX	ORDER IN ORIGINAL PASSED BY	APPELLATE FORUM							
		1st	Time limitation	2nd	Time limitation	3rd	Time limitation	4th	Time limitation
 <b>BANGLADESH</b>									
VAT	Additional Commissioner or any VAT officer	Commissioner (Appeals)	90 days	Appellate Tribunal	90 days	Revision in High Court			
 <b>INDIA</b>									
VAT (KN)	Officer below the rank of Deputy Commissioner	Appellate authority	60 days	Appellate Tribunal	180 days	High Court	60 days	Supreme Court	90 days
VAT (HY)	Officer or Joint Excise and Taxation Commissioner	Joint Excise and Taxation Commissioner or Commissioner	60 days	Appellate Tribunal	180 days	High Court	60 days	Supreme Court	90 days
VAT (AP)	Additional Commissioner or Joint Commissioner or Deputy Commissioner	Appellate authority	30 days	Appellate Tribunal	60 days	High Court	90 days	Supreme Court	90 days
 <b>PAKISTAN</b>									
FGST	Assistant or Deputy Commissioner	Commissioner (Appeals)	30 days	Appellate Tribunal	60 days	High Court	90 days	Supreme Court	
 <b>SRI LANKA</b>									
VAT	Assessor	Commissioner-General	30 days	Board of Review	1 month	Court of Appeal	1 month	Supreme Court	1 month

# VAT Grouping

## VAT Groups

VAT groups are allowed in the UK – Article 11 Directive 2006/112/EC

France introduced a “cash group” on January 2011 for certain businesses.

## Group VAT registration

Two or more companies or limited liability partnerships- known as “bodies corporate” – may register as a single taxable person – or VAT group – if they meet the following criteria :

- Each body has its principal or registered office in the UK,
- They are under common control, for example one or more company is a subsidiary of a parent company,

If the turnover of the VAT group is over £10 million per year and the group is partly owned or managed by a third party, you can register as a group for VAT if:

- No more than 50 per cent of benefits generated by the business go to third parties,
- Your group uses consolidated accounting,
- No third party consolidates the group into its accounts.



# VAT Grouping

A VAT group is treated in the same way as a single taxable person registered for VAT on its own. The registration is made in the name of the “representative member”. The representative member is responsible for completing and submitting a single VAT return and making VAT payments or receiving VAT refunds on behalf of the group.

However, all the members of the groups remain jointly and severally liable for any VAT debt.

Advantage of VAT group registration

- No need to account for VAT on goods and services supplied between group members. This is especially useful if the accounting system is centralised.
- Only need to complete and submit

# VAT Implementation - Key Recommendations

- Reduce tax concessions and tax amnesties, and avoid special regimes so as to protect the rudimentary character of VAT as a modern consumption tax.
- Limit exemptions primarily to health, education, charity and basic essential food items (excluding those supplied at restaurants and hotels, etc.).
- Use the services of VAT-experienced technical experts and professionals for smooth and trouble-free VAT implementation and management.
- Reduce compliance cost but attract optimal voluntary compliance by building incentives into the tax system (carrot and stick policy approach).
- Share data among different government departments, organisations, institutions, authorities and agencies as well as between different government departments at regional and global level for BTB (broadening tax base) and anti-tax-evasion/avoidance purposes.
- Make the VAT system a seamlessly integrated unified tax management regime with preference for single hand and single rate tax administration with a uni-declaration mechanism (in countries where powers to collect VAT are divided between the central/federal governments and the state/provincial governments).
- Optimise the application of Information Technology and modern scientific tools to enhance the overall efficiencies of tax management, tax monitoring, taxpayers' facilitation (including dispute resolution/settlement regime) and tax collectors' accountability through regular capacity building and fair wage and reward systems.

# Thank you for your attention!